

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7656

Petition of Vermont Public Power Supply Authority)
Pursuant to 30 V.S.A. § 108(a) for Authority to Issue)
Long-term Debt for the Purchase of Membership)
Units in Vermont Transco, LLC for the Benefit of the)
Village of Lyndonville Electric Department)

Order entered: 9/8/2010

I. INTRODUCTION

On July 13, 2010, the Vermont Public Power Supply Authority ("VPPSA") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) for long-term debt financing in the amount of \$2.2 million (the "Loan") for the purchase of 220,000 membership units ("Transco Units" or "Units") in Vermont Transco, LLC ("Transco") on behalf of the Village of Lyndonville Electric Department ("LED"). The purpose of the Loan is to assist LED in offsetting the Specific Facilities costs LED is responsible for funding in relation to the Vermont Electric Power Company, Inc./Vermont Transco LLC's ("VELCO") 115 kV substation project, currently under construction in Lyndon, Vermont (the "Project"). The Loan is to be provided by TD Bank ("TD"). The Petition was supported by the prefiled testimony of Crystal Carrier, Controller for VPPSA, and by accompanying exhibits.

On August 11, 2010, the Department of Public Service ("DPS") filed its Determination Under 30 V.S.A. § 202(f) with the Board recommending that the Board approve the Petition and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On August 24, 2010, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

I have reviewed the Petition and the supporting documents. I conclude that approval of VPPSA's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the exhibits presented in this docket, and the DPS's letters of August 11 and 24, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 108.

II. FINDINGS

1. VPPSA has thirteen members who are all Vermont distribution utilities.¹ Petition at 1.

2. VELCO, Central Vermont Public Service Corporation ("CVPS"), and LED recently received Board approval in Docket No. 7562 to construct a 115 kV substation in Lyndon, Vermont. The Project is expected to be complete in early 2011. Under Transco's tariff with the Federal Energy Regulatory Commission ("FERC"),² distribution utilities that interconnect with such a project are required to pay the carrying cost of Specific Facilities³ for the first ten years of operation, after which the facilities are incorporated into Transco's Common Facilities. LED and CVPS have agreed to share the Specific Facilities charges 77.5% and 22.5%, respectively. To offset the Specific Facilities charges for LED, Transco has offered, upon regulatory approval, to issue approximately \$2.2 million of Transco Units to LED. These Units will be issued for a period of ten years after which they will be sold back to Transco or the Vermont distribution utilities. The Units pay an average annual return of 12.5%. Petition at 1.

1. Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Hyde Park Electric Department; Village of Jacksonville Electric Company; Johnson Water & Light Department; Ludlow Electric Light Department; Lyndonville Electric Department; Morrisville Water & Light Department; Northfield Electric Department; Village of Orleans Electric Department; Village of Barton Electric Department; Town of Readsboro Electric Light Department; and Swanton Village, Inc. Electric Department.

2. The 1991 Transmission Agreement, Vermont Transco LLC, FERC Rate Schedule No. 1.

3. "Specific Facilities" are defined in Article IV of the 1991 Transmission Agreement as "those high-voltage transmission lines, substations and other appurtenances constituting a direct physical interconnection to the Vermont Transco system and not constituting part of Vermont Transco's looped transmission facilities, that are requested, used, and installed to benefit a requesting Purchaser of transmission service."

3. In the past, VPPSA has periodically purchased Transco Units for the benefit of its members, including LED.⁴ Since Transco has offered Units to LED, LED has requested that VPPSA conduct the purchase of the Units on LED's behalf. Currier pf. at 4.

4. Because construction of the Project is not yet complete, and thus the costs for the Specific Facilities are not final, Transco estimates that it will issue up to \$2.2 million in Specific Facilities equity for LED. VPPSA intends to finance the purchase of the Transco Units with financing provided by TD Bank of up to \$2.2 million for a term of ten years. TD is offering a variable interest rate calculated at the One-month London Interbank Offered Rate ("LIBOR") plus 3.50%, and has structured the Loan as a bullet note with no principal reduction required during the term of the note. Thus VPPSA will only pay interest on the Loan during its term with full principal due at maturity to be paid through the sale of the Transco Units. VPPSA expects to enter into an interest rate swap arrangement that will effectively provide a fixed interest rate for the same term as that of the Loan based on a spread of 3.50% above the spot swap rate as of the date of the swap, yielding a rate of between 6% and 9% currently. Based on an average annual return from the Transco Units of 12.5%, VPPSA estimates that the proposed financing will provide an annual positive cash flow benefit, net of financing costs, of between 3.5% and 6.5% on the amount borrowed. Currier pf. at 5-6; exh. VPPSA-Currier-2.

5. Pursuant to the terms of the Transco Equity Agreement between VPPSA and its members, VPPSA will acquire and own the Transco Units for the benefit of LED as if LED had purchased the Units on its own. The purchase of the Units will contribute toward offsetting the Specific Facilities costs during the first ten years after the Project enters commercial operation. At the end of ten years, VPPSA will make the Units available for sale to other Transco members and/or substitute members as governed by the Supplement to the Transco Equity Agreement between VPPSA and LED. Currier pf. at 5-6; exhs. VPPSA-Currier-3 and VPPSA-Currier-4.

4. VPPSA had previously purchased Transco Units for its members in relation to the Lamoille County Project. See Docket No. 7546, Order of 9/17/09; and Docket No. 7569, Order of 12/18/09.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that VPPSA's Petition as described above will be consistent with the general good of the State. The proposed financing provides financial benefits to LED and LED's ratepayers through VPPSA's ownership of the Transco Units and the distribution income the Units provide which will be used to offset interest costs and the costs of the Specific Facilities. I therefore recommend that the Board approve the Petition and authorize the requested long-term financing for the purchase of Transco Units by VPPSA on behalf of LED in an amount not to exceed \$2.2 million, according to the financing terms as described above.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 1st day of September, 2010.

s/ Jay E. Dudley

Jay E. Dudley
Hearing Officer

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term debt financing in an amount not to exceed \$2.2 million to finance the purchase of membership units in Vermont Transco LLC ("Transco") on behalf of the Village of Lyndonville Electric Department ("LED"), as set forth in the Vermont Public Power Supply Authority's ("VPPSA") Petition in this docket, and as described in the Findings, is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to obtain financing from TD Bank in an amount not to exceed \$2.2 million for a term of ten years, according to terms consistent with the Findings above.
4. This Order does not constitute approval of VPPSA's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the amended Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or VPPSA's resulting capital structure.
5. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 8th day of September, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
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OFFICE OF THE CLERK

FILED: September 8, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.